

BANGOR HYDRO-ELECTRIC COMPANY,
MAINE ELECTRIC POWER COMPANY, INC.,
CHESTER SVC PARTNERSHIP AND
EMERA INC., Request for Approval
of Reorganization

STIPULATION

Bangor Hydro-Electric Company, Maine Electric Power Company, Inc., Chester SVC Partnership and Emera Inc. (collectively "Applicants"), the Office of the Public Advocate, the Municipal Review Committee and the Industrial Energy Consumers Group (collectively "the Parties") hereby agree and stipulate as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues in this proceeding, to eliminate unnecessary litigation, to expedite the Commission's consideration and resolution of the proceeding and to advance in time the merger of Bangor Hydro with Emera and the eventual adoption of an Alternative Rate Plan for Bangor Hydro. The provisions agreed to herein have been reached as a result of information gathered through review of information provided by Applicants and the Parties in response to written and oral information requests and discussions among the parties and the Commission's Advisory Staff in this case.

II. BACKGROUND

On August 14, 2000, Bangor Hydro-Electric Company ("BHE"), Maine Electric Power Company, Inc. ("MEPCO"), Chester SVC Partnership ("Chester"), and Emera Inc. ("Emera") submitted to the Commission, in accordance with 35-A MRSA §708, a Joint Petition for Approval of Reorganizations that will occur upon the merger of Merger Sub, a yet-to-be-formed U.S. subsidiary of Emera, a utility holding company headquartered in Halifax, Nova Scotia, with and into BHE. Pursuant to the Agreement

and Plan of Merger, BHE will become a wholly owned subsidiary of Emera. The Plan of Merger and associated Company Disclosure Schedules, along with the pre-filed direct testimony of Carroll R. Lee and Christopher G. Huskison were submissions accompanying the August 14, 2000 Petition.

On August 9, 2000, the Hearing Examiners issued a Procedural Order noticing the filing, setting a deadline for petitions to intervene of August 17, 2000, and scheduling a pre-hearing conference for August 24, 2000. On August 24, 2000, Emera filed its Objection to the Petition to Intervene of Central Maine Power Company ("CMP"). At the August 24 pre-hearing conference, and in a Procedural order issued August 25, the Hearing Examiner granted the petitions to intervene of the Public Advocate, the Municipal Review Committee ("MRC"), the Industrial Energy Consumer Group ("IECG") and Fort James Corporation. CMP was authorized to file a written reply by August 30 to Emera's objections to its Petition to Intervene.

The Hearing Examiner granted CMP discretionary intervention on September 5. Emera requested reconsideration of the September 5 Order on September 20 and the Hearing Examiner denied the request in an October 5 Procedural Order. Emera's October 25 Appeal of Examiner's Granting Intervenor Status to CMP remains pending before the Commission.

A late request for intervention on behalf of Alternative Energy, Inc., filed with the Commission on September 5, was granted by the Hearing Examiner on September 7.

Commission Staff, the Public Advocate, and the IECG served data requests on BHE and Emera on or before September 7, 2000. Outstanding discovery issues were discussed at a September 22 conference convened by the Hearing Examiner. The Hearing Examiners issued a Memorandum of Decision issuing Protective Orders to be used in the case and denying Emera's objections to the production of valuation-related material. Emera filed an Appeal and Request for Oral Argument on September 27. Oral argument was heard by the Commission on October 6 and at deliberations

following the argument, the Commissioners ruled that Emera did not have to provide valuation-related material. That decision was issued in written form on October 16.

Commissioners Welch and Diamond held a public witness hearing in Bangor on October 5, 2000.

A conference of counsel was held on October 10 to discuss scheduling issues. Follow-up questions related to BHE and Emera data responses were pursued at a Technical Conference held on October 16.

The Public Advocate, MRC and the IECG filed testimony of Marvin Kahn, Greg Lounder and Richard Silkman, respectively, on October 23, 2000. BHE and Emera served data requests on the testimony on October 30 and received responses on November 6.

Settlement discussions among the Parties, other than CMP, and the Staff began on October 31 and continued on November 9 and November 17, 21 and 27.

III. STIPULATION PROVISIONS

The Parties to this Stipulation agree and recommend that the Commission order as follows:

A. Approval of Application.

1. Approval. The Parties agree that the Commission issue an order which approves and adopts this Stipulation and finds that, subject to the provisions herein, the proposed reorganizations are consistent with the interests of the ratepayers and investors of the Maine public utility Applicants and approves the proposed reorganizations under 35-A MRSA §708 and such other provisions in Title 35-A as might be applicable.

B. Conditions of Approval.

1. Acquisition Premium. The Parties agree that the principles set forth in the Commission's decision regarding the recovery and the conditions for recovery of an acquisition premium as set forth in CMP Group, Inc. et al., Request for Approval of Reorganization and of Affiliated Interest Transactions, Order, Dkt. No. 99-411 (Me. P.U.C. January 4, 2000) shall apply with equal force and effect as controlling precedent to recovery of the acquisition premium to be paid by Emera Inc. in the proposed transaction.

2. Alternative Rate Plan ("ARP"). BHE agrees to file a proposal for an ARP not later than the earlier of two months after the completion of the merger or June 30, 2001, provided that BHE may request that the Commission grant an extension of this deadline upon a showing of good cause. Each of the parties understands and agrees (i) that the recently approved CMP ARP is an example of a possible ARP, and (ii) that there is no agreement that the BHE ARP will necessarily include any element from that CMP ARP. Notwithstanding the above, BHE agrees to file a set of service quality standards and nothing in this Stipulation is intended to prevent a party from arguing for a different SQI mechanism and this Stipulation does not constitute binding precedent for the service quality issues in the ARP proceeding. BHE further agrees that its initial filing in the ARP proceeding will address the following:

- a. The elimination of demand ratchets.
- b. The institution of a back-up rate for customers with self-generation facilities or cogeneration facilities behind the meter.
- c. The adoption of a rate similar to "Rate O" in the Central Maine Power territory for Fort James and BHE's two Champion Paper customers.

This provision does not limit the Commission's authority to order BHE to otherwise file an ARP at a different time to be determined by the Commission or to order that rate design issues be addressed in a different proceeding.

3. Jurisdiction. The Parties agree as follows:

a. Applicants agree to comply with Maine statutes and Commission regulations regarding reorganizations and affiliated transactions of BHE, and agree that BHE will obtain Commission approval, to the extent required by Maine law or regulation, prior to the implementation of any reorganization or affiliated transaction. Applicants also agree that Emera and any of its affiliates, to the extent their activities relate to or in any way impact the operations, costs or revenues of BHE in Maine, shall be subject to the Commission's jurisdiction for discovery purposes and participate as a party in any proceeding when deemed necessary by the Commission.

b. Applicants agree to petition the SEC to make an explicit finding in its order approving the merger that its approval of the merger transaction does not preempt MPUC exercise of its jurisdiction under Maine law with respect to reorganizations, affiliate transactions of BHE or ratemaking for BHE regarding the costs associated with its affiliate transactions, and that it is the SEC's intention that its approval of the merger transaction does not affect the MPUC's right to review and disallow BHE's costs for services rendered between BHE and its affiliated interests that might otherwise be subject to recovery in rates.

c. Applicants agree that all contracts or transactions between BHE and its affiliated interests that constitute affiliated transactions which require approval of the Maine PUC under Maine law must explicitly provide that no charges made or incurred, and that no costs incurred or revenues earned under the contracts, will be reflected in BHE's rates except as permitted by the Commission in accordance with Maine law, except where compliance with both state and federal requirements is impossible or where compliance with state law would cause BHE or an affiliate to violate federal law. Further, to the extent that the SEC must approve such contracts, Applicants agree to petition the SEC for

an explicit finding that the terms in the contract required by this provision are not inconsistent with SEC law or regulation.

d. Applicants agree to waive the defense that the MPUC's jurisdiction to approve a reorganization or affiliate transaction of BHE or to set the rates of BHE with regard to a transaction between BHE and an affiliate is preempted by the existence or exercise of SEC jurisdiction over reorganizations or affiliate transactions of BHE, except where compliance with both state and federal requirements is impossible or where compliance with state law would cause BHE or an affiliate to violate federal law.

4. Access to Books and Records. Upon request, by the Commission, Emera will make available to the Commission, at a location in the State of Maine convenient to the Commission, such books and records of Emera and its affiliates as the Commission may require Emera to produce. Emera shall be provided written notice and opportunity to be heard on such production requests, and such requests shall be implemented with appropriate protection for confidential information and trade secrets.

5. Interim Service Quality Provisions. It is the intent of the Parties that there be no reduction in BHE's service quality as a result of the proposed merger. This includes both the pre-merger period following approval of this Stipulation as well as the post-merger period. To ensure this intent is satisfied, the following shall apply until the implementation of an ARP for BHE or until March 31, 2002, whichever shall occur first: These interim service quality provisions do not result from extensive study or analysis of BHE's service quality and are intended only to provide a general yardstick during the interim period by which the parties may perceive changes in certain criteria. These interim service quality provisions shall not constitute precedent and shall not bind any party in future service quality matters. These interim service quality provisions shall not affect the Commission's authority with regard to service quality.

a. BHE shall file with the Commission and the OPA on or before the last day of each month the following service information for the prior calendar month and the prior twelve calendar months:

- i. CAIDI
- ii. SAIFI
- iii. % of Calls Answered within 30 Seconds
- iv. % of Service Orders completed on time

b. BHE shall file with the Commission and the OPA on or before the 30th day following the end of each quarter the following information for the prior quarter and the prior four quarters:

- i. CSI-O as measured in the Company's SQI
- ii. CSI-F as measured in the Company' SQI

c. The service quality benchmarks for the interim period, as defined in Attachment A, shall be as follows:

- i. CAIDI: 1.58 hours
- ii. SAIFI: 2.21 events
- iii. Calls Answered by a person within 30 Seconds: 80.75%
- iv. Service Orders completed on time: 85.5%
- v. CSI-O: 0.665
- vi. CSI-F: 0.7315

The parties intend that these benchmarks are solely for ascertaining changes in Bangor Hydro service quality measurements during the interim period and that failure to meet a benchmark in and of itself does not establish a failure to provide safe, reasonable and adequate service.

d. In the event that BHE's service quality measurements for any twelve month period (or four quarter period as the case may be) do not meet any of the benchmarks in "c" above, an explanation shall be provided by BHE and the Commission may open an investigation to inquire into such service quality issues and into what remedy, if any, would be appropriate. The remedy for failure to maintain service quality during the interim period may include the imposition of appropriate penalties or sanctions, including a prohibition on the payment of dividends.

e. In order to ensure that the benchmarks agreed to herein provide a meaningful measure of past service quality against which to compare future service quality, BHE agrees that, until such time as these Interim Service Quality Provisions no longer apply, it shall compile data for the respective benchmarks as follows:

- i. The CAIDI and SAIFI numbers shall be compiled in the same manner as they were compiled for inclusion in the Attachment to Examiners 2-3, filed in this docket, which is included in Attachment B to this Stipulation.
- ii. The CSI-O and CSI-F numbers shall be compiled in the same manner as they have been compiled since January 1998, as shown on Attachment C to this Stipulation.
- iii. The “% of Calls Answered within 30 Seconds” numbers shall be compiled in the same manner as they were compiled for reporting in the document entitled “Operations Report, Month of June 2000”, which document was included in the response to Examiners 1-22, filed in this docket, which is included in Attachment D to this Stipulation.
- iv. The “% of Service Orders completed on time” numbers shall be compiled in the same manner as they have been since July 1998, as shown in Attachment C to this Stipulation.

6. Capital Spending Targets. Because of the connection between current capital expenditures and future service quality, BHE shall file with the Commission and the OPA the following information relating to its capital expenditures. This reporting shall commence with approval of this Stipulation and shall continue until this requirement is modified by subsequent Order of the Commission:

a. BHE’s annual capital budget (beginning with the budget for the year 2001), and every modification of such capital budget, to be filed within 30 days of its adoption.

b. BHE’s actual capital expenditures for each calendar month, beginning with January, 2001, to be filed on or before the last day of each month for the prior calendar month.

c. A variance report that explains the material differences between actual and budget, to be filed on a quarterly basis within 45 days of the end of each calendar quarter, beginning with the 4th quarter of 2000.

d. In the event that BHE's actual capital expenditures fall materially below its budgeted capital expenditures, or if the Commission should otherwise become concerned about BHE's capital budget or expenditures, the Commission has the right to open an investigation to inquire into such capital budget issues and into what remedy, if any, would be appropriate.

7. Divestiture. The Commission may order the divestiture of BHE by Emera upon a determination by the Commission after notice and opportunity to be heard that no other available remedy is adequate to reasonably address the harm.

8. PERC Warrants. The Parties agree that when BHE's retail rates are next adjusted across the board for most customers, such rates shall incorporate recovery of actual costs associated with the exercise of PERC warrants as of the date of the merger's closing and as well the reconciliation of previous projections of their costs, as approved by the Commission in Docket No. 97-596, except that for ratemaking purposes:

a. For any exercise of warrants after the date of this Stipulation, it shall be assumed that the warrants were exercised at \$17.50 if exercised by December 31, 2002 and at \$18.50 if exercised after December 31, 2002;

b. the costs associated with the exercise of any warrants will receive rate base treatment or be deferred, with carrying charges, for future recovery in the next rate proceeding, and it will be assumed for this purpose and for the purpose of application of subsection (a) above, that the warrants owned by the Municipal Review Committee ("MRC") as of the date of the merger closing are exercised in annualized equal amounts over a 7 year period, beginning with the date of the merger closing. In accordance with standard electric utility

ratemaking practice, the 5% interest payments by BHE to MRC will not be an expense item to be recovered in rates or otherwise reflected in the determination of BHE's cost of capital.

This Stipulation is conditioned on the MRC and BHE entering into a legally enforceable agreement, acceptable to both parties, which allows Emera/BHE to defer payment on the MRC warrants exercisable at closing to provide for equal annualized payments over a 7 year term, subject to BHE's payment of interest on the deferred amount of 5% per annum. BHE shall certify to the Commission that the agreement has been executed and this Stipulation shall be null and void if BHE has not provided such certification by December 15, 2000.

9. SEC Approval. The Parties agree as follows:

a. The Parties agree and recommend that the Maine Public Utilities Commission's acceptance of this Stipulation constitutes a finding that the Maine Public Utilities Commission has the authority and resources to protect ratepayers subject to its jurisdiction and intends to exercise its authority.

b. The Parties agree and recommend that pursuant to its approval of this Stipulation, the Maine Public Utilities Commission will certify to the SEC that the Maine Public Utilities Commission has the authority and resources to protect ratepayers subject to its jurisdiction and intends to exercise its authority.

c. The Parties agree that each Party will send a letter to the SEC supporting the SEC approval of the merger, subject to the conditions in this Stipulation.

10. Revenue Requirement Freeze. Upon completion of the merger, BHE shall freeze its total PUC distribution jurisdictional revenue requirement (which does not include stranded costs or Standard Offer Service revenues) at the level that exists as of

the completion of the merger until Commission consideration and approval of an ARP, provided that the ARP is implemented by March 31, 2002, except that the revenue requirement freeze shall not apply if BHE demonstrates that it has incurred a “mandated cost” as that term was approved by the Commission in Central Maine Power Company, Request for Approval of Alternative Plan (Post-Merger) “ARP 2000,” Docket No. 99-666, Order Approving Stipulation (Nov. 16, 2000).

C. Standard Provisions.

11. Staff Presentation of Stipulation. The Parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Advisor Staff to discuss this Stipulation and the resolution of this case with the Commission, without the participation of any party, except in the case where a Party to this proceeding is opposing this Stipulation.

12. Record. The record on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of this Stipulation, the pre-filed testimonies of the Parties, the transcript of the Public Witness Hearing on October 5, 2000, all documents provided in responses to data requests and information requests of the Parties and of the Advisory Staff and any other material furnished by the Advisory Staff to the Commission, either orally or in writing, at the time of the Commission’s consideration of this proceeding.

13. Non-Precedential Effect. Except where it may be expressly noted herein, the Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

14. Stipulation as Integral Document. This Stipulation represents the full agreement between all parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

Bangor Hydro-Electric Company

By: _____
Its: _____ Date _____

Maine Electric Power Company, Inc.

By: _____
Its: _____ Date _____

Chester SVC Partnership

By: _____
Its: _____ Date _____

Emera Inc.

By: _____
Its: _____ Date _____

Office of the Public Advocate

By: _____
Its: _____ Date _____

Municipal Review Committee

By: _____
Its: _____ Date _____

Industrial Energy Consumer Group

By: _____
Its: _____ Date

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MEASURE	DESCRIPTION
CAIDI	Customer average interruption duration index (CAIDI) measures the average interruption of customer outages during a period. For the purposes of this stipulation, this measure excludes outages due to major storm events.
SAIFI	System average interruption frequency index (SAIFI) measures the average frequency of customer outages during a period. For the purposes of this stipulation, this measure excludes outages due to major storm events.
% Of Calls Answered in 30 seconds	Percentage of calls answered in 30 seconds measures the percentage of telephone calls answered at BHE's customer service center by a live person within 30 seconds of receipt.
% of Service Orders Completed on Time	The percentage of service orders completed on time measures the percentage of customer requested service orders completed by the goal dates established for each type of service order.
CSI-O	The office operations index (CSI-O) measures customer ratings as determined by BHE's quarterly customer survey in the following areas: concern for customers, courteous employees, fair/reasonable credit collection policies, accurate metering and billing, programs that attract new businesses, ease of getting through, programs to help customers who have difficulty paying for their bill and planning for future energy needs.
CSI-F	The field operations index (CSI-F) measures customer ratings as determined by BHE's quarterly customer survey in the following areas: concern for customers, reliable service, courteous employees, quick service restoration, efficient line crews and accurate metering/billing.

Note: A "major storm event" is a storm which results in more than 30,000 customer outage